

CITY OF SHELBY

INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2013 THROUGH JUNE 30, 2014

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City of Shelby

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Melvin Hursey	Mayor	January 2016
Shawn Osbahr	Council Member	January 2016
Shelia Rihner	Council Member	January 2016
Bob Richmond	Council Member	January 2016
Karen Schlueter	Council Member	January 2018
Pat Honeywell	Council Member	January 2018
Christie Martin	City Clerk	Indefinite
Katie Goshorn	Attorney	Indefinite
Patricia Morris	Treasurer	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 3, 2014

Lonnie G. Muxfeldt

Certified Public
Accountant

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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

I have performed an agreed-upon procedures engagement of the City of Shelby pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa legislature to provide certain minimum oversight of Iowa cities. Accordingly, I have applied certain tests and procedures to selected accounting records and related information of the City of Shelby for the period July 1, 2013 through June 30, 2014. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards. Issued by the Comptroller general of the United States.

The procedures I performed are summarized as follows:

1. I reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. I reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. I reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. I obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. I reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. I reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

7. I reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. I reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. I reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. I reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa
11. I reviewed and tested selected receipts for accurate accounting and consistency with the COA.
12. I reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. I reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. I reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. I reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, I identified various recommendations for the City. My recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

I was not engaged to and did not conduct an audit of the operations of the City of Shelby, the objective of which is the expression of opinions on financial statements. Accordingly, I do not express opinions on the City's financial statements. Had I performed additional procedures, or had I performed an audit of the City of Shelby, additional matters might have come to my attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Shelby and other parties to whom the City of Shelby may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Shelby during the course of my agreed-upon procedures. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, reading "Lorne G. Smith, CPA". The signature is written in a cursive style with a large, stylized initial "L".

DETAILED RECOMMENDATIONS

CITY OF SHELBY

DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – I realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts.

CITY OF SHELBY

DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014

- (C) City Council Minutes – Chapter 380.4 of the Code of Iowa requires that a passage of an ordinance, amendment or resolution be by a majority vote of all members of the council. All members of the council refers to all of the seats of the council including vacant seats and including a seat where the member is absent. There was one instance found during testing where Ordinance 2014-01 for water and sewer rates was passed with only three of the five members present. There was also one instance where the minutes were not signed by the Mayor and one instance where the minutes were not signed by the Mayor or the City Clerk.

Recommendation – The city should comply with Chapter 380.4 of the Code of Iowa and refrain from voting on ordinances, amendments and resolutions unless all seats of the council are present at such meeting. The City should consult legal counsel as to the validity of Ordinance 2014-01. Also, the City should comply with Code and have all appropriate official sign the minutes of each meeting.

- (D) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the fire/ambulance, road use, water improvement sinking, urban renewal, sewer improvement sinking and electric functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also, the Clerk’s Budget Report did not balance with the certified amended budget for total disbursements.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The Clerk should review the Budget Report and reconcile it to the final certified budget.

CITY OF SHELBY

DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014

- (E) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has tax increment financing (TIF) debt of \$226,757 outstanding at June 30, 2014. The City had cash on hand of \$63,557 at June 30, 2014 in the Special Revenue, Urban Renewal Tax Increment Fund to pay for the TIF debt outstanding. Therefore, the City had a \$163,200 deficit in cash on hand needed to pay the TIF debt outstanding. The Urban Renewal Report due December 1, 201 was filed and approved by the City Council in a timely manner.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (F) Separately Maintained Records – The City of Shelby Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City's accounting records.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the City Council on a monthly basis.

- (G) Financial Condition – The Debt Service, Capital Projects and Water Fund had deficit balances at June 30, 2014.

Recommendation – The City should investigate alternatives to eliminate the deficit balances in order to return these funds to a sound financial condition.

CITY OF SHELBY

DETAILED RECOMMENDATIONS

FOR THE PERIOD JULY 1, 2013 THROUGH JUNE 30, 2014

- (H) Unauthorized Disbursement – It was noted during testing that one disbursement was issued prior to City Council approval.

Recommendation – All disbursements should be approved for payment by the City Council before issuance.

- (I) Fund Balance – The general fund balance on the City's trial balance is out of balance by \$540.

Recommendation – The City should investigate this issue and form a plan of action to correct it.

- (J) Payroll – The annual salaries of the City employees were not published in accordance with Iowa Attorney General's Opinion 78-4-7. Although time sheets are maintained by part-time employees, there is no indication that the time sheets have been reviewed or approved by appropriate supervisory personnel prior to payment. Employee vacation and compensatory time hours are not adequately tracked or reviewed by appropriate supervisory personnel. In addition, annual salary increases were approved by the City Council but were based upon a percentage increase and the actual amount of approved wages were not documented.

Recommendation – The City should comply with the Iowa Attorney General's Opinion 78-4-7 and publish the employee salaries annually. Appropriate supervisory personnel should review and approve all employee hours before payroll checks are issued. An appropriate tracking system should be implemented to accurately track employee vacation and compensation time. All annual salary increased should be based on a fixed amount and not by an annual percentage.

CITY OF SHELBY

SHELBY, IA 51570

NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an agreed-upon procedures report on the City of Shelby, Iowa for the period July 1, 2013 through June 30, 2014. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Muxfeldt Associates, CPA, P.C. recommended the City establish segregation of duties over cash, cash receipts, disbursements, utility billing and financial reporting. Muxfeldt Associates, CPA, P.C. recommends the City comply with Chapters, 384.20, 380.1 and 384.18. Muxfeldt Associates, CPA, P.C. also recommends that separately maintained records be included in the City's accounting records, deficit fund balances be eliminated, approval for disbursements before issuance of the claim, correction of out of balance funds and payroll related issues.

A copy of the examination report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.